SHORT TERM ECONOMIC FORECAST

FOR YUKON

(1984 and 1985)

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1.0 YUKON ECONOMY - 1983

1.1 INTRODUCTION

Recent economic indicators tend to confirm that Yukon's economy has bottomed out over the past few months. The partial reopening of the United Keno Hill and Cyprus-Anvil Mines, along with aggressive approaches taken by the Government in the provision of short-term job creation programs, encouragement of development opportunities in the Beaufort Sea, and a variety of other capital works programs have tended to stabilize economic activity.

At the present time, the Government of Yukon does not foresee any major economic initiatives on the horizon, and activity will be required by the public sector in order to maintain current levels of economic activity over the next 12 to 24 months. This public sector involvement must come, in the opinion of the Government of Yukon, through a co-operative effort between all levels of Government.

This paper outlines the perspective of the Government of Yukon with respect to economic activity in the years 1984 and 1985. It must be appreciated that the small size of Yukon's economy and the potential for volatile economic changes make the predictions for 1985 more tentative than those for the upcoming 12-month pe

1.2 BACKGROUND

The Government of Yukon believes that the worst of the economic recession of 1982 is over, and that the economy is stabilized at a lower level of economic activity. Yukon's population reached its lowest point since 1976 in August 1983 (22,925). This is some 3,700 below the modern day high of 26,625 residents set in February 1982. However, the population did recover over the last 6 months of the year, standing at 23,378 in December 1983.

Yukon's unemployment rate continued to be amongst the highest in the country, averaging 14.1% during 1983. This compares with a Canadian unemployment rate of 11.9% for a similar period. The unemployment rate remains high despite the massive 14% population exodus over the past 18 months. However, there appear to be some positive signs given the fact that Yukon's unemployment rate fell from 20.1% in April 1983 to 16.1% in December of the same year. Unemployment insurance claims showed a similar drop over the period, declining from a record 2,917 in April to 2,266 in December.

The decline in the unemployment rate appears to be the direct result of significantly increased involvement by both levels of government in Yukon's economy, the economic stimulus created by the partial reopening of the Cyprus-Anvil and United Keno Hill Mines, an increase in tourism activity in 1983 and the population exodus. The Government of Yukon initiated a $10 million O & M and capital works recovery program which provided a broad range of economic activity throughout Yukon. It is estimated that this program created approximately 1,300 jobs and over 16,000 person weeks of employment. In addition, the Cyprus-Anvil recovery program, sponsored by Dome Petroleum and the Federal and Territorial Governments, initiated an injection of some $25 million into a major overburden stripping program at the mine that has created 244 jobs. The United Keno Hill

reopening in June, 1983 resulted in a further 140 jobs being created. This activity, combined with an 8% increase in the number of tourists visiting the territory, resulted in an increase in retail trade of 12.9% in the fourth quarter of 1983 versus the same period of 1982. Since inflation in Yukon over the past year has averaged only 3.9%, retail million into a major overburden stripping program at the mine that has created 244 jobs. The United Keno Hill reopening in June, 1983 resulted in a further 140 jobs being created. This activity, combined with an 8% increase in the number of tourists visiting the territory, resulted in an increase in retail trade of 12.9% in the fourth quarter of 1983 versus the same period of 1982. Since inflation in Yukon over the past year has averaged only 3.9%, retail trade has therefore increased in real terms by some 7.5 to 8.0%, the first real increase in almost 2½ years. The impact of government involvement in the economy is clearly illustrated by the sharp increase in building activity within Yukon, most particularly Whitehorse. In 1983, some $8,354,000 worth of building permits were issued in Whitehorse. This compares with only $2,927,000 worth of permits issued during 1982. The majority of the activity was within the institutional sector where over $5 million in new construction was approved.

Average weekly earnings in Yukon which had dropped from $503 per week in June 1982 to $441 a year later, had started to recover by the end of December, 1983 standing at $472 per week. Business activity appears to have stabilized over the past year as bankruptcies dropped from 25 in 1982 to 6 in 1983. The bankruptcy rate in 1983 more closely follows the long-term trend for bankruptcy in Yukon, lending credence to the fact that the economy has reached the bottom of the business cycle.

The positive signs within Yukon's economy must be tempered by the loss of the Kiewit Sons/Gulf Oil proposals for developing Yukon's north slope. These projects would have created over 565 jobs during construction and over 300 permanent jobs as well as three quarters of a billion in direct value-added production during the operating lives of the projects. These cancellations had a significant demoralizing effect on Yukon's business community and there has been a tempering of future expectations and investments. Continuation of the moratorium on the taxation of northern benefits provided a small ray of hope which has since been modified by the proposal to give COPE a 10% competitive advantage in bidding for Federal Government contracts.

2.0 YUKON ECONOMIC OUTLOOOK (1984)

2.1 ECONOMIC OVERVIEW

The evidence presented to date clearly shows that the world economy is slowly recovering from the worst recession since 1931. However, the recovery is neither strong nor is it displaying signs of being sustained over a long period of time. This, combined with the uncertainty in world metal markets, the continuing delays in reaching a final end claims agreement and changes in the Federal Government makes the prediction of economic events in Yukon for 1984 and 1985 extremely difficult.

On the basis of existing information, the Government of Yukon believes that the population level of the territory will stabilize at between 23,000 and 24,000 residents. Employment levels are expected to continue in the range of 10,000 to 10,500 and unemployment will remain amongst the highest in Canada (i.e. in the 10 to 15% range).

Price increases in the territory, which fell below 4% in 1983, are expected to rise slightly in keeping with national

trends and may range up to 5% throughout most of 1984. With average weekly wages in Yukon expected to continue to come more into line with average earnings available throughout the rest of the country, business profits may rise modestly through 1984 thereby giving some sense of stability to the business community.

2.2 MINING

Although the world economy appears to be making a modest recovery from the recession, this recovery has had a mixed result on the world metal markets. The prices for zinc have risen significantly and now stand at 53.0¢ per pound (U.S.). As well, lead prices have risen to 26¢ per pound (U.S.) in line with the long-term trend of 25 - 30¢ per pound U.S. Silver prices have fallen from a high of $12.10 per ounce (U.S.) in 1983 to a present $9.73 per ounce (U.S.), a decline of more than $2.00 over the year.

The mixed reaction of the world metal markets makes it very difficult to predict the activities of Yukon's two remaining mines in 1984. This market, combined with logistical problems and unresolved power and transportation issues, means that the Cyprus-Anvil Mine will not go into production until at least November 1984. As a result, the White Pass and Yukon railway will also remain closed until the spring of 1985 at the earliest. In addition, with silver prices continuing to decline and little prospect for a recovery prior to the middle of 1984, there is little likelihood that the United Keno Hill Mine will return to full production until at least 1985. Nonetheless, the fact that 384 employees have returned to the hardrock mining industry will translate into an increase in economic activity in Yukon through spinoff benefits. The Government of Yukon estimates that there will be an additional 210 person years of employment created in the service sector in 1984 as a result of these reopenings.

However, exploration activity is expected to increase for precious metals, particularly in areas such as Rancheria and southeastern Yukon. As well, United Keno Hill outlined a major $6 million exploration program at their mines in Elsa and at the old Venus Mine near Carcross. As a result, the Government of Yukon believes that mineral exploration will increase in 1984 and will be in the range of $15 to $20 million. This is not expected to translate into a significant increase in employment within this sector; but should provide additional income to struggling Yukon expeditors and exploration service companies.

2.3 TOURISM

Border crossings in Yukon in 1983 totalled some 395,000 individuals, an 8.2% increase from the 365,000 crossings in 1982. This increase in tourism activity during 1983 did not translate into higher gross expenditures within Yukon but did demonstrate a continuing strength in the sector. The Government of Yukon feels that tourism will again lead economic activity in 1984, with up to 400,000 visitors crossing our borders during the year. Marketing efforts by the Yukon Visitors' Association are expected to be sufficient to counter the potential downturn in tourism created by the 1984 Olympics in Los Angeles and the recession. It is interesting to note an apparent increase in the numbers of tourists to Yukon from Skagway in spite of the closure of the White Pass Railway. It would appear that the closure of the railway has induced more bus travel to Whitehorse from Skagway in place of short rail excursion trips from Skagway to Fraser, B.C.

The Governments of Canada and Yukon initiated a $2.2 million Tourism and Small Business Incentive Program that will provide financial assistance to more than 45 companies throughout Yukon. These companies are expected to provide employment to approximately 125 individuals and inject over

$4 million of investment into the territory between the latter part of 1983 and early 1984. As well, the new Tourism Incentive Program approved for 1984-85 should provide additional investment and employment.

2.4 OIL AND GAS

Exploration activity in the Beaufort Sea and at Norman Wells continued throughout 1983 with spending of an estimated $1 billion in the search for Beaufort Sea oil. Initial estimates indicate that 118 to 123 Yukoners were employed in the Beaufort Sea and Norman Wells during 1983. This is a substantial increase over the 18 to 20 employed in 1982. It is expected that the number of individuals hired in 1984 will not be significantly higher than in 1983. Work forces in both areas have more or less reached their maximum for the pre-production phase and any further increase in the number of Yukoners employed would have to be met by a decrease in the number of non-Yukoners hired.

The value of supplies and services provided by Yukon businesses to these two projects also increased substantially in 1983. It is estimated that some $5 to $7 million worth of business was obtained by Yukon companies; a four fold increase over 1982.

This business activity bolstered corporate revenues for Yukon companies and assisted in saving an estimated 50 jobs throughout the Territory during the past year. However, as with employment, it is not expected that there will be major increases in business revenue generated in 1984. Nonetheless, the spinoff of benefits from the increased employment and activity in the Beaufort Sea in 1983 is expected to be felt throughout the 1984 season. The Government of Yukon estimates that an additional 40 jobs will be created throughout the Territory in 1984 as a result of increased exploration activity. The proposed exploration

by Westmin Resources and Pan McKenzie in the fall of 1984 should also assist in providing new jobs and business opportunities for Yukoners.

2.5 FORESTRY

There is every indication that the forest industry throughout Canada should improve in 1984 as a result of the general economic recovery. Yukon's forest industry is recovering due to the recent reopening of Cattermole Timber under the name Watson Lake Forest Products. The company is employing 40 people on a permanent basis and hopes to return to its pre-1981 level by the end of the year. The company is also considering construction of a new 20 million board foot mill, which would inject $4 to $7 million into the Watson Lake economy.

A proposal to develop a sawmill facility in the Teslin area is presently under study. If this project were to go ahead there would be a significant impact upon the Territory's forest industry.

2.6 CONSTRUCTION

Private sector construction throughout Yukon increased significantly in 1984 over the depressed 1983 level due in large part to injections of Territorial and Federal funding into the development of new capital initiatives. Projects such as the Whitehorse Airport Terminal, Carcross Road reconstruction, renovation of the Whitehorse swimming pool and Yukon Government capital spending on a variety of programs provided increased employment activity in the sector. The majority of these projects are not expected to be completed until 1984 and will thereby provide assurance of continued activity for some time to come. Initial estimates by the Government of Yukon indicate that an additional 70 person years of employment will be created in

1984 over 1983. Spinoff benefits from these projects will contribute a further 18 to 20 person years of employment in the service sector in 1984.

In addition to the above, the Federal Department of Employment and Immigration sponsored a number of job creation programs in 1983 which were estimated to have created between 775 and 800 new jobs. This translated into an estimated 360 person years of employment throughout the year. The majority of these new jobs are expected to continue through to at least the middle of 1984.

2.7 ECONOMIC DEVELOPMENT AGREEMENT

The Government of Yukon negotiated an Economic Development Agreement which was signed on June 11, 1984. The value of the Economic Development Agreement is $13.2 million. It is a cost shared Agreement, with an $11.9 million contribution from the Federal Government and $1.3 million from the Yukon Government. The Agreement will run for 5 years and should create over 100 full-time jobs per year over its life.

2.8 INDUSTRIAL DEVELOPMENT

The Peter Kiewit Sons/Gulf Oil proposals on the North Slope were the first major development projects proposed for Yukon since the construction of the Cyprus-Anvil Mine. A recent announcement by Sohio Oil and Exxon indicates that their $1 billion exploration well in a new area of Prudhoe Bay has come up dry. Since the success of this test well was a cornerstone of the Peter Kiewit proposal it is not expected that the project will go forward in the foreseeable future. Gulf Oil, on the other hand, will proceed to develop their proposal, but the base will be of a floating design located off Yukon's north coast and, as such, Yukon is not expected to receive any major benefit from the project.

2.9 LAND CLAIMS

The land claims agreement-in-principle was signed in 1984. The various bands are in process of voting for ratification of the settlement. With nine of the twelve bands voting in favour of the settlement at the present time, the outlook is good for final agreement to take effect in late 1984 or early 1985.

3.0 ECONOMIC OUTLOOK (1985)

3.1 OVERVIEW

The Government of Yukon continues to believe that the Canadian economy will recover throughout 1984 and 1985. Moveover, it believes that the minerals market will stabilize and prices will slowly increase to pre-recession levels thereby allowing for the reopening of the Cyprus-Anvil mine and a return to full production by the United Keno Hill mine. It is expected that this will increase direct employment in the mining industry by approximately 400 individuals and increase overall employment throughout the economy by approximately 800 people in 1985. Therefore, employment levels are expected to increase to the mid/high 10,000 person range and the population should climb by 1,200 to 1,500 people resulting in an overall population in the range of 24,300 - 24,800. The Government, however, does not believe that the minerals market will recover sufficiently to allow a new production decision by any mining company on their Yukon properties. It is anticipated that Amax of Canada will not anounce a production decision on the MacTung property in McMillan Pass until the spring of 1986 with production slated to begin in 1988.

The unemployment rate is expected to fall to between 9 and 12%. Inflation over the period is expected to remain in the range of 5 to 6%, and business activity is anticipated to increase somewhat in response to Cyprus-Anvil's reopening.

3.2 MINING

The Government of Yukon expects that Cyprus-Anvil will reopen for production around November, 1984. This will result in the hiring of an additional 250 employees to bring the total employment at the mine to approximately 500. In addition, the spinoff benefits from the increase in employment at the mine are predicted to create an additional 250 to 300 jobs throughout the service sector in 1985 and 1986.

The United Keno Hill Mine is expected to achieve full production in 1985 if silver prices increase to the $15 -$20 per ounce (U.S.) range. If this price increase does not occur it is unlikely that the mine will increase its work force above the 1984 level. Both placer mining and mineral exploration activity are expected to remain at the 1984 levels unless a major increase in world mineral markets occurs.

3.3 TOURISM

Tourism activity should remain reasonably high throughout 1985 as the world economy begins its steady recovery. The number of visitors to Yukon is expected to increase 3 to 5%, bringing tourist activity to the 405,000 person per year range. Moreover, the Government of Yukon is confident that its business incentive programs will provide stimulus to the tourism industry by increasing the quality and scope of tourist attractions, facilities and services. With this enhanced investment there is the expectation of increased expenditures by tourists throughout the territory and that tourism expenditures will increase to above $75 million per year.

3.4 OIL AND GAS

It is anticipated that employment activity within the oil and gas industry in the Beaufort Sea and at Norman Wells will decline slightly in 1985 as capital construction within the Norman Wells complex comes to an end. However, the number of jobs is not expected to decline significantly and Beaufort Sea employment is expected to be maintained in the 100 - 110 range accompanied by $5 to $10 million worth of business expenditures.

3.5 FORESTRY

With the reopening of the major sawmill facility in Watson Lake, we feel that the forest industry will return to its pre-1981 production levels and provide continued contribution to Yukons economy. However, we do not fore-see any major expansion of the industry beyond the present facilities in 1985.

3.6 CONSTRUCTION

Public sector construction is expected to remain at or slightly above 1984 levels during 1985 despite the completion of a number of government projects such as the Whitehorse Airport Terminal, reconstruction of the Carcross Road and completion of the Whitehorse Swimming Pool. This assumption is based upon sufficient funds being available to the Federal and Yukon Governments to initiate new projects to maintain and upgrade Yukon's capital infrastructure. Consequently, employment in the industry will remain relatively constant throughout 1985.

3.7 TRANSPORTATION

A reopening of the Cyprus-Anvil Mine will reactivate a broad range of trucking and air transportation employment that was lost when the mine originally closed. If concentrate is to be hauled on the Whitehorse - Skagway road rather than the White Pass Railway there would be substantially more jobs created in this sector than would be the case if the concentrate were hauled by rail. The transportation jobs that would result from a mine reopening are included as part of the spinoff benefits outlined in the section on mining.

3.8 ECONOMIC DEVELOPMENT AGREEMENT

This will be the second year of the Economic Development Agreement and a further $4 - $5 million will be spent under a variety of sub-agreements. Any long-term stimulus to the economy will probably not be felt until after 1985.